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DEPT PASS TO USTR CLILIENFELD/AADLER/CHINCKLEY
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SUBJECT: New Delhi Weekly Econ Office Highlights for the Week of
June 22 to June 26, 2009

¶1. (U) Below is a compilation of economic highlights from Embassy New Delhi for the week of June 22-26, 2009, including the following:

-- India To Be Fastest Growing Economy in 2010
-- India Signals Openness to Re-Start
Doha Round Negotiations
-- GOI Announces New PPP Norms
-- GOI Announces Educational Reforms Agenda

India To Be Fastest Growing Economy in 2010

¶2. (SBU) The World Bank updated its Global Development Finance publication this week and predicted that India will surpass China to be the fastest growing economy in the world in 2010. The development bank forecast Indian growth at 8% with China's economic growth a bit slower at 7.5%. The forecast for both the countries in 2011 was to hit 8.5% growth, as the bank expects most of the global economy to return to normal by then. If the World Bank's forecast proves true, this would mark the first time in decades that India's growth outpaced China's. This year, most local economists expect India to grow between 6.5-7%.

¶3. (SBU) Such growth may be threatened, however, if the summer monsoon rains do not start up soon. The rains, on which much of the summer crops are dependent, were expected to begin around June 13, but they are now nearly two weeks late. Although agriculture contributes less than 20% to GDP, it is the source of employment to more than half the labor force. Citi estimates that a bad monsoon, depending on how delayed it is and how deficient the amount of rainfall, could cut GDP in the coming year by 50 to 100 basis points.

India Signals Openness to Re-Start
Doha Round Negotiations

¶4. (U) Media reported extensively Commerce Minister Anand Sharma's take on the multilateral trade talks. Since the time of his taking over the charge in the Commerce Ministry of the newly formed government of India (GOI), the minister has been making positive statements on the revival of the WTO talks. With the economic

downturn in the global economy, India views an opportunity in the successful completion of the Doha round of talks; however, India has not indicated a definitive position on the contentious agriculture market access and NAMA issues. After his recent meeting with USTR Kirk in Washington, Sharma has been quoted as saying that, for now, the GOI's focus is not so much on the details, but on reviving the process. He told media that in the "present economic backdrop, there is a need to re-energize and not re-invent, since much effort has been invested over years to reach a broader convergence on a large number of issues."

¶5. (U) After his recent remarks in Washington that New Delhi is ready for "give and take" without being "frozen in [a] pre-negotiating position" in the interest of global trade, and the initiative of his ministry to call off the impasse in negotiations, there were speculation, in general, that India is ready to offer concessions and has softened its position. Clarifying his stance on the talks, Sharma has told media that India's position would continue to be guided by national interest, especially "livelihood concerns and subsistence farmers." Commenting on the two draft reports of the working group on agriculture and NAMA, Sharma earlier indicated that these drafts may be used as the "base" for the resumption of multilateral talks. According to press reports, Sharma will convey India's position at the upcoming OECD meeting, and will also meet his counterparts from France, Australia and Canada.

GOI Announces New PPP Norms

¶6. (U) The Ministry of Finance (MOF) has revised the Request for Qualification (RFQ) norms for public private partnership (PPP) projects. Under prior norms, a prospective bidder needed to

demonstrate execution of projects equivalent to the cost of the proposed project in the last five years. Per the new norms, the threshold technical capacity of bidders has been enhanced by almost twice the estimated cost of projects under the PPP model. For example, a developer bidding for a PPP project worth Rs 500 crore (USD 100 million) should have a record of executing projects worth at least Rs 1,000 crore (USD 200 million). The cross holding limit for investors has also been raised to 5% from the prior 1%. Therefore, an investor holding equity in two companies, which are partners in a project, can now hold up to 5 percent in each company. However, financial institutions are exempt from this rule. Increasing the cross holding limit is expected to improve investor confidence and bring in more investments.

¶7. (U) In addition, each of the members of a consortium, in addition to holding 26 percent equity in the special purpose vehicle floated to bid for the project, will also be required to hold equity equal to at least 5 percent of the total project cost for a period of two years after the commissioning of the project. The norms have also increased the number of short-listed bidders from five to six for projects over INR 500 crore (USD 100 million) and from five to seven for projects under 500 crore (USD 100 million) or for repetitive projects, although this relaxation of sorts is seen as counter-productive by the industry.

¶8. (U) The GOI continues to retain its authority to restrict the number of projects awarded to a single bidder. Though this limit seems to be a move by the GOI to prevent cartelization, it is also seen as a retrograde step by industry. According to industry, establishing a threshold criterion will be enough of a deterrent for trivial bidders. Many analysts continue to argue that retention of these two clauses will continue to create confusion with infrastructure project bids and lead to delays which have repeatedly plagued the road development sector. These factors have made it difficult for the National Highways Authority of India (NHAI) to attract road and highway project bids. From here forward, the pending thirty-seven road sector projects, which will adhere to these new bidding norms, will provide an interesting test case for the GOI to determine the efficacy of the new PPP norms.

GOI Announces Educational Reforms Agenda

¶9. (U) Announcing a 100-day mandate for his ministry, the new Human Resource Development (HRD) Minister Kapil Sibal, on June 25 declared his plans to allow foreign direct investment (FDI) in education. Sibal, known for strongly favoring FDI in India's education sector, told press reporters that "FDI must come into India. Entry into the education sector must neither be limited nor over-regulated. I want the system to be accessible from outside too." He stated that allowing private investment, including FDI, in education "does not mean you have fly by night operators. The country should not prevent quality learning from coming". Explaining his position, he pointed to a significant number of Indian students studying abroad (160,000) at an overall cost of seven billion dollars, visa problems, and issues like the recent attacks on Indian students in Australia. He further reasoned "When the demand exists, why should we send our children out? Foreign universities can come at our doorstep; India has the potential to become a global provider of quality graduates."
¶10. (U) Elaborating on his plans for revamp of the education system, the minister has reportedly said that he would take forward the Foreign Educational Institutions (Regulation of Entry and Operations, Maintenance of Quality and Prevention of Commercialization) Bill, which was cleared by the cabinet in February 2007 but has been stalled. The pending legislation seeks to permit but regulate the entry, operation and maintenance of foreign education.
¶11. (U) Countering claims of the political opposition on the subject, Sibal emphasized that "The Left is not against foreign universities per se; they are concerned about fly by night operators. Everything has to be regulated and it will be." He made it clear that the government cannot handle everything, and the

players will include corporate investment in school education, joint ventures, public-private partnerships. Another important step forward that the HRD Minister announced includes structural reforms to relax procedures and to end the licensing regime in the sector.
¶12. (U) Visit New Delhi's Classified Website:
http://www.state.sgov/p/sa/newdelhi.

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